Geocrude Energy Inc.

1981 ANNUAL REPORT

Contents

Annual Meeting

3:30 P.M. on Wednesday
May 12, 1982
Calgary Petroleum Club
319 - Fifth Ave. S.W.
Calgary, Alberta

Highlights

* $9,775,781 cash raised by public issue of common shares, net of commissions
* $6,585,632 working capital balance at December 31, 1981
* $1,859,918 cash flow from operations for 1981
* $2,700,000 cash flow from operations budgeted for 1982
* 120% increase in gross acreage to 334,164 acres
* $6,575,000 joint venture capital for 1981-82
* $2,000,000 joint venture capital committed for 1982-83
* $2,000,000 joint venture capital committed for 1983-84
* $13,500,000 capital expenditures projected for 1982 operations

Company History

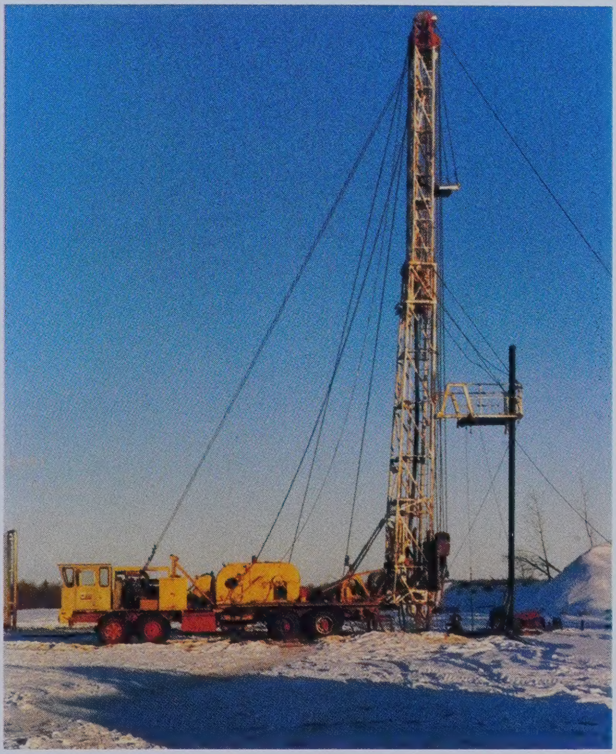
Geocrude Energy Inc. was incorporated under the laws of Canada by Articles of Incorporation dated August 12, 1980 and commenced operations on December 31, 1980 with the acquisition of petroleum and natural gas properties and working capital valued at $31,954,160 in exchange for 6,390,832 shares. These properties were the assets of eleven limited partnerships in which the principals of Geocrude Energy Inc. acted as General Partners. A successful public underwriting was completed in February 1981 which resulted in the issuance of 2,150,000 common shares for proceeds of $9,775,781 net of commissions. On April 13, 1981 the shares were admitted for trading on both the Toronto and Montreal Stock Exchanges.

In June of 1981 $6,575,000 in investment capital was privately raised in a program which included joint venturers who are committed for another $2,000,000 in aggregate for each of 1982 and 1983.

On November 4, 1981 the Company issued 400,590 shares as final consideration for the acquisition of the interests of the operator and general partner of the RG-80 program.

Final details are being completed for Geocrude Energy Inc. to acquire the units of the limited partners of the RG-80 program in exchange for 1,481,262 shares of the Company. This will bring the total outstanding common shares of Geocrude Energy Inc. to 10,422,684.

A wholly owned subsidiary, Geocrude Energy (U.S.) Inc. was incorporated in the State of Delaware on March 5, 1981. The groundwork has thus been laid for a continuing exploration program in the United States.



Service Rig — Zephyr et al Pembina 8-13-48-2 W5M

It gives me a great deal of pleasure to present your Company's Annual Report and audited financial statements for the year ending December 31, 1981, our first year of operation.

The highlights on the preceding page reflect positive progress in all important financial areas with working capital at year end of $6,585,632, cash flow from operations of $1,859,918 and earnings before deferred taxes of $1,174,618. Significant improvement in the Company's acreage position in Canada and the United States and a high degree of drilling success in both countries are strong indicators your Company was not standing idle during a very depressing 1981 for the petroleum industry, as well as the entire Canadian economy.

Capital expenditures of $10,000,000, comprising $6,000,000 of Geocrude funds and $4,000,000 joint venture/limited partnership funds allowed our aggressive exploration team, concentrating in the Province of Alberta, to acquire excellent exploration projects in areas where potential for multiple producing horizons existed and the likelihood for the recovery of oil as opposed to natural gas was maximized.

Those Canadian entities with working capital also found unique opportunities in areas that, in the past, were solely the domain of the "majors" and hence the opportunity for Geocrude to substantially improve on our land holdings.

Geocrude more than doubled its Alberta gross acreage position to 249,905 gross acres, and increased its net acreage in Alberta some 69% to 69,886 net acres. Additional acreage was acquired in British Columbia and various areas in the United States.

In many instances, the acreage increases resulted from third party farmins and exploratory drilling to earn. The full oil and gas potential of these properties will not be reflected on the books of Geocrude at this time until gas markets are improved to justify further evaluation of initial gas discoveries and development drilling is conducted on initial new oil discoveries. Notwithstanding the above, a significant amount of the Company's increased acreage portfolio has yet to be evaluated.

In an area affecting your Company, but completely beyond its control, the Federal Government and oil producing Provinces spent most of their time vying for a larger share of oil and gas revenues with the petroleum industry absorbing the consequences of this selfish political battle. The negative impact of the 1980 and 1981 Federal Budgets and subsequent pricing accords with the Provinces resulted in a severe cutback in Canadian exploration during 1981, especially by the major companies.

The expectations that the economics for a viable industry could only improve after the October 1980 National Energy Policy were completely destroyed with the September 1, 1981 Alberta/Ottawa pricing accord. The agreement purported to provide an attractive "carrot" in that world prices were proposed for oil found after December 31, 1980. The "carrot" has wilted somewhat with declining world oil prices. Governments fail to comprehend the need for working capital in order to find new oil, and in this respect, the pricing agreements did not meet the needs of the industry. The Federal Government had an opportunity with its November 12th Federal Budget to create a positive atmosphere and again, it failed in its responsibilities.

Problems were compounded with the threatened collapse of the economy and high interest rates. The industry, particularly the smaller independents, deal in short-term financing and with more attractive alternatives available for investment capital little financing flowed to the petroleum industry in 1981. The expectations for 1982 have not improved.

Nevertheless, your Company will survive the current problems for the following reasons:

1. A strong working capital position;
2. A positive and improving cash flow;
3. Minimum overhead with no debt service costs;
4. Joint venture participants committed until early 1984;
5. A proven ability of its management to raise capital under adverse conditions.

Geocrude with joint ventures and limited partnerships already committed, will expend over $13,500,000 in 1982 toward drilling and land acquisition in Canada and the United States, with the Company contributing $7,000,000 from its own resources and receiving a carried interest on the balance of expenditures. Of this amount, $2,400,000 has been budgeted to follow up the 1981 new oil discoveries in Canada and $2,000,000 allocated for continued exploration in the United States.

Geocrude is hopeful successful efforts to raise additional funding through joint ventures and limited partnerships will add significantly to this program.

We are confident the severity of the damage to the industry has "bottomed out" and only developments of a positive nature can accrue to a company with the financial and management components of Geocrude Energy Inc.

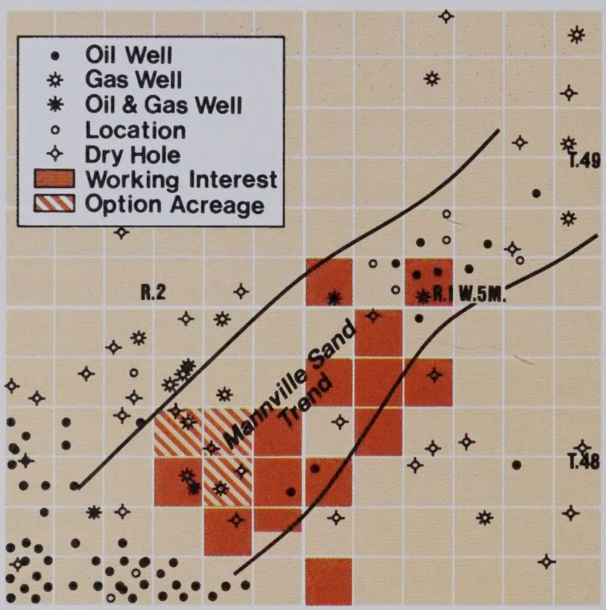
Our achievements to date are due to a young, extremely competent group of employees that desire to play an integral role in molding a dedicated, established exploration and production company and to these people we owe our appreciation.

On Behalf of the Board of Directors

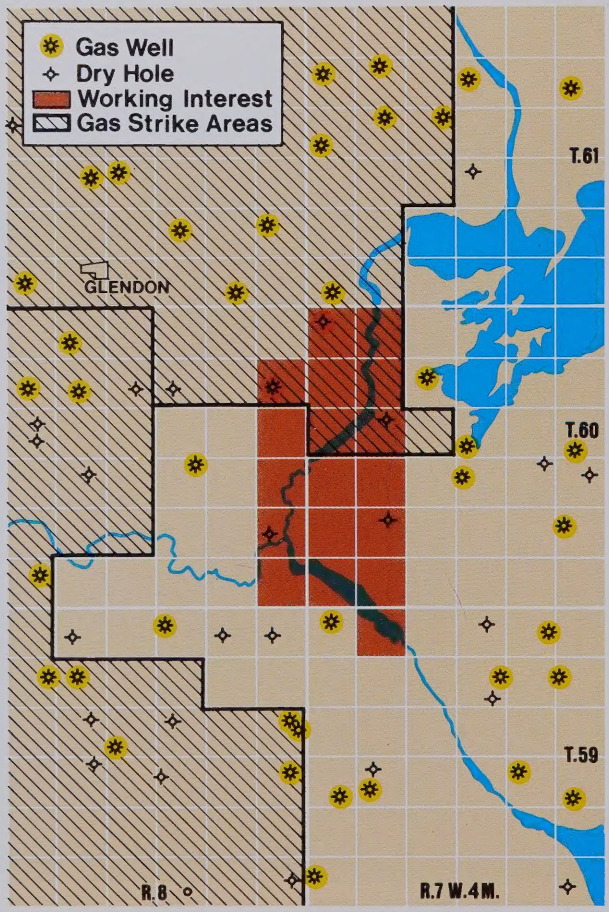
James A. Dabbs
President

Vulcan 16-30-16-23 W4M — One of the first "new oil" wells that Geocrude participated in

THORSBY / PEMBINA



MOOSE LAKE



Thorsby/Pembina

The Thorsby area continues to be a major contributor to the Company's cash flow position, with 4 oil wells producing at an average rate of 12.2m^3 O/D (76 BOPD/well). Although Geocrude's working interest ranges from 3% to 38%, the gross land position in this highly oil prone area is significant and allows maximum exposure to several exploration targets.

During the latter part of 1981, the Company participated in an exploratory well on acreage adjacent to the Thorsby trend. This successful venture will be followed up in early 1982 and should help to evaluate acreage in which the Company has a higher working interest.

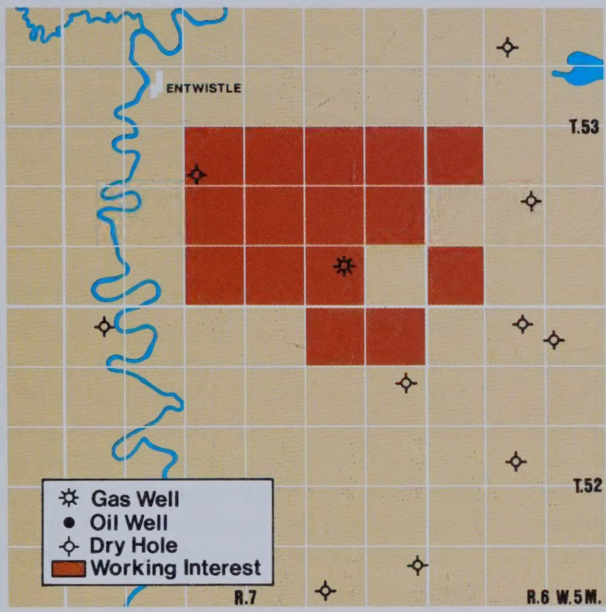
It is also anticipated further industry activity will help evaluate and enhance the value of Geocrude's holdings throughout this entire area.

Moose Lake

The Company has committed to a 20 mile seismic program and 4 wells in this highly promising gas area. Continuing drilling options would enable Geocrude and its partners to earn an interest in 4,864 hectares. Primarily gas prone, industry activity in this area indicate heavy oil potential recoverable through secondary methods.

The seismic program will be conducted during the first quarter of 1982, with initial drilling scheduled for the third quarter and continuing thereafter as terrain conditions permit.

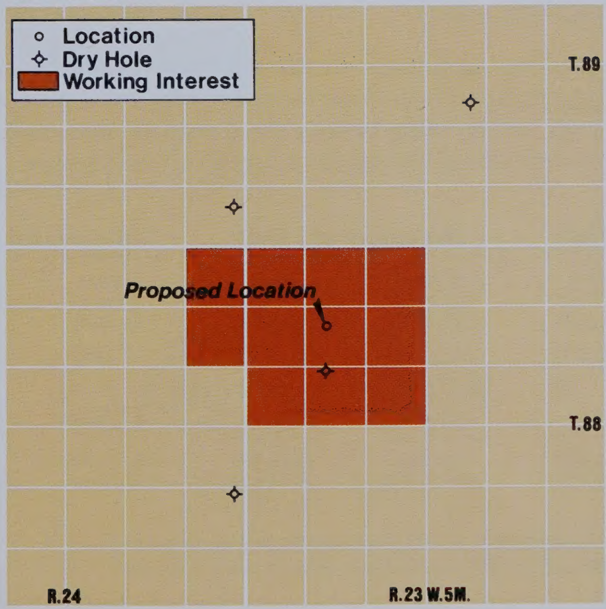
ENTWISTLE



Entwistle

The Company entered into a Farmout Agreement during 1981, whereby the drilling of 2 wells earned an interest in a 3,840 hectare licence. These 2 wells validated the entire 15 section licence for an additional 5 year period. As a result of the 1 successful well, the available seismic data is being re-interpreted so that additional locations may be selected for 1982.

LONESTAR



East Coast

Geocrude Energy Inc. participated in 3 bids submitted for tracts offered in the East Coast Offshore Area of Canada. The bids consist of work programs involving environmental studies, seismic programs and exploratory drilling. As outlined on the map, there were a total of 7 tracts offered on the February 28, 1982 Federal Offshore Sale. Results of the sale are expected in early Spring of 1982. Should the Company be successful in its bids, Geocrude Energy Inc. could possibly be involved in exploratory drilling off Canada's East Coast by the Summer of 1983.

EAST COAST

Lonestar

During 1981, increasing oil prices resulted in the stimulation of exploration activity in some of the more remote areas considered attractive for oil prone reservoirs. Geocrude participated with its partners in the acquisition of seismic data and a 2,849 hectare licence in northwestern Alberta. Further seismic shooting has resulted in the selection of a promising drilling location in Section 29. This well will be drilled in mid-82, terrain permitting.

Other Areas of Exploration

Haynes

One exploratory well is scheduled for this area where the Company holds a Fifty percent (50%) working interest in 1,216 gross hectares (608 net hectares). Detailed seismic has been interpreted and the area has potential for both oil and gas in multi-zones.

Ante Creek

The Company has drilled one successful gas well in this area and earned or acquired a Twenty-five percent (25%) working interest in a total of six and three quarter sections (1,728 hectares). Additional drilling has been discussed because of the prospect for oil, as well as gas.

Ricinus

The Company was successful in acquiring a Fifty percent (50%) working interest in 512 gross hectares (256 net hectares) directly offsetting the Ricinus oil and gas field. Industry interest in this area indicates a high potential for further activity in the coming year. Offsetting land bonus prices have escalated to a high of $4,298.81 per hectare, or $1,100,000.00 per section of land.

Narrows

Geocrude has participated as to a Thirty-five percent (35%) working interest in one exploratory test on a six section block (1,536 gross hectares, 538 net hectares) recently acquired at an Alberta Land Sale. The well appears to have encountered a substantial pay section that must be more fully evaluated prior to any decision regarding further work in the area.

Land Holdings

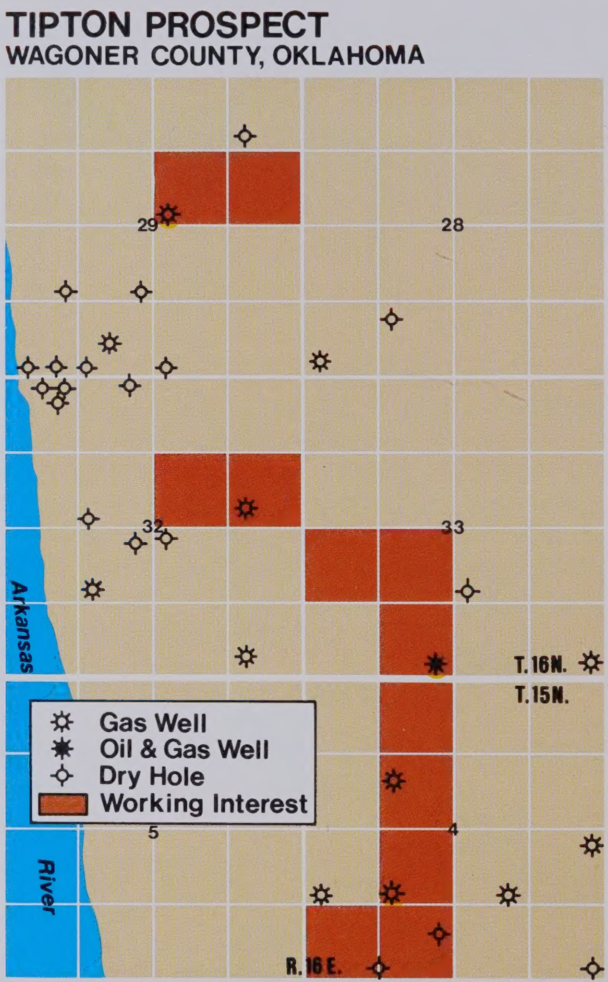
As of December 31, 1981 the Company owned an interest in 334,164 gross acres or 86,653 net acres of oil and gas properties in Canada and the United States.

During Geocrude Energy Inc.'s first year of operation, an interest in 182,350 gross (33,500 net) acres were added to the Company's land inventory, representing an overall increase of Sixty-three percent (63%) in Geocrude Energy Inc.'s land holdings. As shown on the table below, the Company acquired 28,505 net acres in Alberta, 1,504 net acres in British Columbia and 3,591 net acres in the United States.

Province	December 31, 1980		December 31, 1981		Incremental Change	
	Gross	Net	Gross	Net	Gross	Net
Alberta	116,441	41,381	249,905	69,886	133,464	28,505
British Columbia	35,093	11,592	42,133	13,096	7,040	1,504
Saskatchewan	280	80	280	80	—	—
United States*	—	—	41,846*	3,591*	41,846*	3,591*
TOTAL:	151,814	53,053	334,164	86,653	182,350	33,600

*Effective February 1, 1982, approximately 12,000 gross (2,880 net) acres were sold for a cash profit of $30,000 and a 1.25% Gross Overriding Royalty payable to Geocrude Energy (U.S.) Inc.


BRITISH COLUMBIA
ALBERTA
Sixth Meridian
Fifth Meridian
Fourth Meridian
Dahl
Big Arrow
Elm
Nig Creek
Birch
Bernadet
Fox Creek
Inga
Buick Creek
Cub
Northern
Lonestar
Bonanza
Nipisi
Ante Creek
Ft. Assiniboine
Carson Lake
Whitecourt
Sugden
Moose Lake
Leaman
Niton
Majeau
Wildwood
Entwistle
Abee
Carrot Creek
Highvale
Edmonton
Pembina
Thorsby
Bingley
Pigeon Lake
Holmberg
Willesden Green
Leedale
Rimbey
Chigwell
Galahad
Hayter
Gilby
Gull Lake
Leahurst
Red Willow
Bodo
Ferrier
Haynes
Caroline
Markerville
Provost
Elnora
Youngstown
Twining
Richdale
Sedalia
Burns Lake
Swalwell
Sounding
Highland
Acadia
Calgary
Cessford
Shouldice
Atlee
Vulcan
Hays
Medicine Hat
Keho
Granlea
Waterton
AREAS OF LAND HOLDINGS



Tipton Prospect, Wagoner County, Oklahoma

The Company participated in a successful 5 well drilling program in Wagoner County, Oklahoma. This area had been drilled extensively in the past with varying degrees of success. The 5 wells were designed to evaluate "old driller log shows" in a highly prolific area. The Company holds a 20% working interest which resulted in 4 gas wells and 1 oil well. These wells were expected to be on stream during the fourth quarter of 1981, but pipeline and facility problems have delayed the actual start-up date.

Ohio

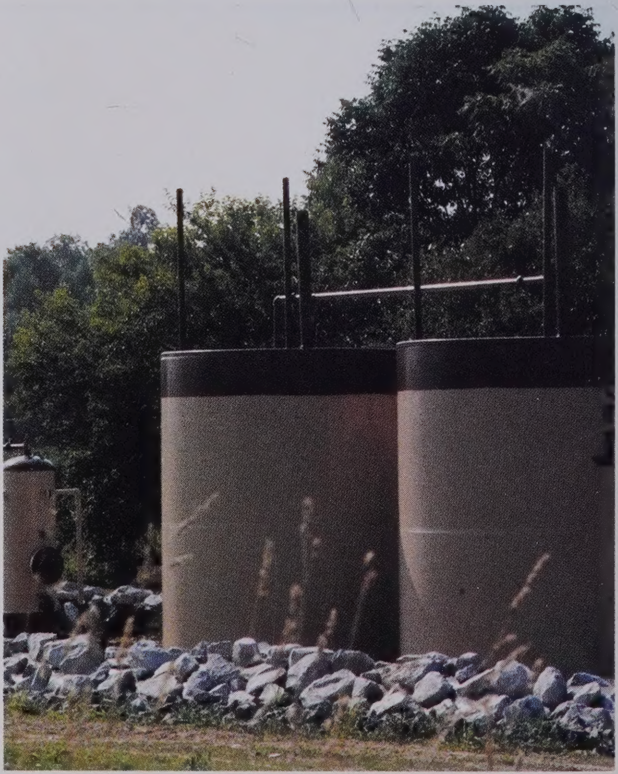
Geocrude, with net 37.5% working interest, participated in the drilling of a 9 well program in Eastern Ohio that has resulted in 8 potential oil wells and 1 dry hole. Although these shallow wells have low production rates, it is anticipated the overall program will be economically viable. These producing wells will be monitored carefully during the first quarter of 1982 before a further drilling program is initiated.

Fence Canyon Uintah County, Utah

Through its 1981 joint venture partner, Flare Petroleums, Geocrude has earned a 6.25% interest in 1,120 acres on this prospect. 1 gas well has been drilled to date and 1 development location exists. This prospect is presently shut-in and is waiting on a gas sales line.

Bailey Prospect, Grady County, Oklahoma

The Company is participating in a 19,500′ Springer test in Grady County, Oklahoma. The Mozelle Snyder #1 well is currently drilling below 13,000′. This prospect is located on a deep seismic anomaly parallel to the Carter-Knox producing area in the Anadarko Basin. Wells in the area have produced in excess of 20 BCF per well. Geocrude has a 3.47% working interest in this $7.3 Million test.

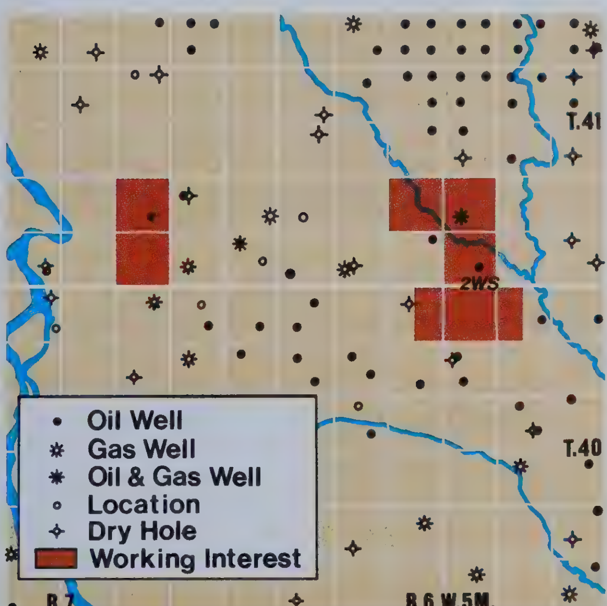


Tank facilities — Mohler #2 — Holmes County, Ohio

Development of New Oil

Due to the events of the past year, it has become imperative that an increasing emphasis be placed on the exploration for "new oil". Although Geocrude's philosophy has been to concentrate the majority of its exploration effort in the combined oil and gas areas, the Company has always been ready to take advantage of opportunities in high reserve or low risk gas prone plays. However, with the prolonging of depressed market conditions and the increase in oil prices, Geocrude has placed an increased emphasis on oil exploration.

BINGLEY / WILLESDEN GREEN



Viking/2nd White Specks/Cardium Potential

Bingley/Willesden Green

In the Bingley area, west of Willesden Green, Geocrude participated in an oil well that, although still confidential, is expected to contribute to 1982 cash flow. Further exploration is planned for both the Bingley and Willesden Green areas where potential exists for Viking, Second White Specks and Cardium oil.

Southeast Alberta

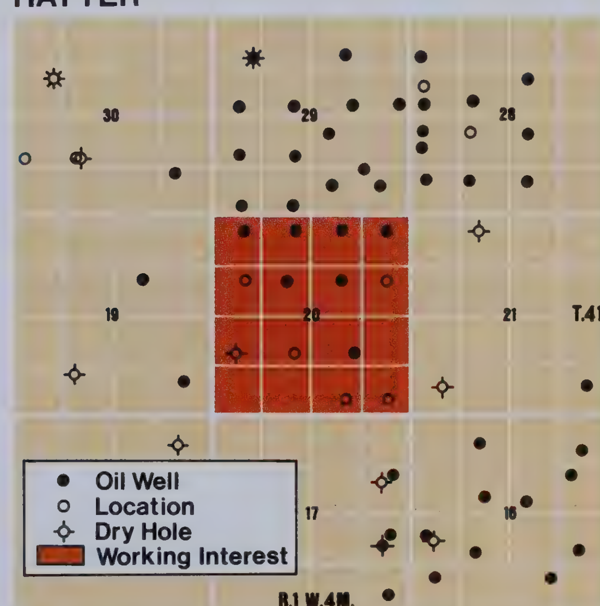
As part of an on-going exploration effort, Geocrude with 2 other partners, participated in a 245 mile seismic program over Crown Lands in conjunction with a Geophysical contractor. This program has enabled the group to geophysically evaluate a great deal of acreage in an inexpensive manner, resulting in the generation of several very promising oil and gas prospects. Due to land availability the results of the program in total will not be known until late 1982, but it is anticipated a minimum of 4 wells will be drilled.

Hayter

Following the initial oil discovery in the Hayter area of eastern Alberta, 6 additional oil wells have been drilled. Of these wells, all but 2 will qualify for the "new oil price". Drilling to date has resulted in gross proven reserves exceeding one million barrels, with substantial increases possible with reduced drilling spacing units or the feasibility of secondary recovery schemes presently under review.

The Company also participated in oil discoveries at Vulcan, Pembina and Niton areas of Alberta. In each of these areas, if extended production is encouraging, further drilling is anticipated during 1982.

HAYTER



Reserves

The reserves below are based upon an independent appraisal as at December 31, 1981 and have been adjusted for 1981 production and more detailed completion work performed on some of the properties. The "Net" columns are after deductions of Crown and all other Overriding Royalties.

The Company, through its U.S. subsidiary, participated in 23 wells in the United States resulting in 5 gas wells and 9 oil wells. The reserves from the successful wells were not available for this report.

Estimated Recoverable Reserves

	Petroleum (mstb)		Natural Gas (mmcf)	
	Gross	Net	Gross	Net
Canada				
Proven	1,136.1	819.1	34,793	24,348
Probable Additional	357.5	265.9	5,248	3,882
United States	Not Available For This Report			
TOTAL	1,493.6	1,085.0*	40,041	28,230

* Of the 1,085,000 barrels of oil net to the company, 466,700 barrels or 43% is classified as "new oil".

* The totals include the reserves acquired on January 1, 1982 from two partnerships which participated in the RG 80 drilling program.

Production

Oil

Production averages 250 BOPD and is primarily from the Thorsby, Twining and Pembina areas of Alberta.

Gas

Production averages 1400 MCFD and is produced from the Abee and Richdale Fields in Alberta and the Bernadette Field in British Columbia.

Gas potential is indicated and could possibly be on stream in 1982 from the Thorsby Field (Solution Gas), Enchant and Mundare Fields in Alberta.

N.O.R.P.

New Oil Reference Price Oil has been applied for in the Hayter and Thorsby Areas and when approved would substantially increase the price/bbl of new oil.

Separator-Zephyr et al Thorsby 12-4-49-1 W5M

Financial Review

The financial performance for the first year of operations demonstrates the strength of the basic concepts incorporated into the formation of the company. The acquisition of productive assets from the predecessor partnerships provided an immediate cash flow and the public share issue early in the year provided the pool of working capital necessary for a viable operation.

Net earnings were $424,318 or 5 cents per share. Cash flow was $1,859,918 or 22 cents per share.

Revenue

Net revenue from oil and gas sales after deduction of royalties was $1,254,380. The Company anticipates that this will more than double in 1982 with the acquisition of 1980 drilling program properties, commencement of production from 1981 discoveries, as well as increased prices, provided marketing conditions do not deteriorate further.

Management fees of $323,678 were earned through the management of private partnerships which participated in Geocrude's drilling programs. This sector of operations will continue in 1982.

High interest rates in effect during the year allowed the Company to generate a substantial amount of income through the management of its cash reserves.

Capital Expenditures

The Company expended $6.0 million on the acquisition of property, plant and equipment. Of this total, approximately $1.4 million related to United States land acquisition and drilling activities. In Canada, $1.2 million was expended to increase the Company's land position, $2.7 million related primarily to development drilling, and $700,000 was applied to its commitment under the 1981 joint venture drilling program. In addition, the acquisitions of the interests of the general partner and operator of the 1980 drilling program were completed by the issuance of shares with an ascribed value of $1.0 million.

Depletion and Depreciation

Since the majority of the Company's assets were acquired by the exchange for shares on December 31, 1980, the costs recorded for accounting purposes were based on a calculation of estimated market value rather than the original finding costs of the vendors. As a result, the depletion costs booked per unit during the course of production are substantial. The result is a relatively low reported net income compared to cash flow.

Taxes

Provision is normally made for income taxes on the basis of reported earnings with allocation as to current and deferred taxes depending on the anticipated timing of actual payment. The acquisition of reserves for shares was accompanied by tax elections which essentially gave the company no costs for tax purposes on these reserves. Accounting conventions dictate this be reflected by disallowing the depletion expense in calculating the tax liability, resulting in an extraordinarily large tax provision. The substantial exploration expenditures of the Company allow the deferral of actual tax payment for several years to come.

COR and PIP

Under the terms of proposed federal and provincial legislation, the Company estimates that its Canadian Ownership Rate will be certified in excess of 90% allowing eligibility for the maximum Petroleum Incentive Program grants. These grants are booked at $1,050,000 on the basis of 1981 expenditures and a further $800,000 is estimated on the basis of 1982 budgeted expenditures.

Trading Activity

	Share Volume	High $	Low $
April 13, 1981 to June 30, 1982	392,410	4.50	3.55
July 1, 1981 to Sept. 30, 1981	479,041	3.80	2.40
Oct. 1, 1981 to Dec. 31, 1981	348,435	2.85	2.30

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1981

ASSETS	1981	1980
CURRENT ASSETS		
Cash and term deposits	$ 5,487,156	$ 733,268
Accounts receivable	1,894,893	72,058
	7,382,049	805,326
NOTES RECEIVABLE (note 4)	588,100	—
PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT (note 5)	36,620,461	31,293,845
	$44,590,610	$32,099,171
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 796,417	$ 610,011
DEFERRED INCOME TAXES	298,300	—
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized		
Preferred and common shares without par value in unlimited number		
Issued		
230,000 Preferred shares	588,100	—
8,941,422 Common shares	42,483,475	31,489,160
RETAINED EARNINGS	424,318	—
	43,495,893	31,489,160
	$44,590,610	$32,099,171

Approved by the Board:

Norman Jesson — Director

James A. Dobbs Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1981

REVENUE		
Oil and gas sales, net of royalties		$1,254,380
Management fees		323,678
Interest		1,097,189
		2,675,247
EXPENSES		
Production	**$309,117**	
General and administrative	**449,212**	
Depletion and depreciation	**685,300**	1,443,629
EARNINGS BEFORE TAXES		1,231,618
TAXES		
Petroleum and Gas Revenue Tax	**87,000**	
Alberta Royalty Tax Credit	**(30,000)**	
Deferred income taxes	**750,300**	807,300
NET EARNINGS, BEING RETAINED EARNINGS AT END OF YEAR		$ 424,318
EARNINGS PER COMMON SHARE, based on weighted average number of common shares outstanding		$.05

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1981

WORKING CAPITAL DERIVED FROM		
Operations		$ 1,859,918
Issue of preferred shares (note 6)		588,100
Issue of common shares (note 6)		10,542,315
		12,990,333
WORKING CAPITAL APPLIED TO		
Notes receivable	**$ 588,100**	
Petroleum and natural gas properties and equipment	**6,011,916**	6,600,016
INCREASE IN WORKING CAPITAL		6,390,317
Working capital at beginning of year (note 1)		195,315
WORKING CAPITAL AT END OF YEAR		$ 6,585,632

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1981

1. COMMENCEMENT OF BUSINESS

Geocrude Energy Inc. (the "Company") was incorporated on August 12, 1980 under the Canada Business Corporations Act.

The Company commenced business on December 31, 1980 with the issue of 6,390,832 common shares of its capital stock in exchange for $31,293,845 of petroleum and natural gas properties and $195,315 of working capital, net of share issue expenses totalling $465,000.

2. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of Geocrude Energy Inc. and its wholly-owned subsidiary, Geocrude Energy (U.S.) Inc.

(b) Oil and Gas Operations

The Company follows the "full cost" method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs, including the costs of production equipment, are accumulated in centres established on a country-by-country basis and depleted using the unit-of-production method based upon the estimated proven oil and gas reserves in each cost centre, or charged to income if exploration in any cost centre is determined to be unsuccessful.

(c) Foreign Currency Translation

Amounts in foreign currencies have been translated to Canadian dollars on the following basis:

(i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Fixed assets, at the rate of exchange in effect at the date on which the respective assets were acquired;

(iii) Revenue and expenses (excluding depreciation and depletion which are translated at the same rates as the related assets), at the average rate of exchange for the year.

(d) Joint Ventures

Substantially all the Company's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

3. INCOME TAXES

Petroleum and natural gas property costs of approximately $31,800,000 relate to property acquisitions made in accordance with certain provisions of the Income Tax Act (Canada) under which such amounts are not deductible for income tax purposes by the Company

4. NOTES RECEIVABLE

The notes receivable, due from officers and employees, are non-interest bearing and secured by a pledge of the outstanding redeemable, convertible preferred shares described in note 6. The notes are repayable on the earlier of (a) conversion of the preferred shares into common shares of the Company; or (b) in installments of 5% of the principal amount on each of the fifth to ninth anniversary dates of the notes, 10% of the principal amount on each of the tenth to fourteenth anniversary dates and the remaining balance on the fifteenth anniversary date.

5. FIXED ASSETS

	1981			1980
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas properties*				
Canada	$35,860,038	$666,000	$35,194,038	$31,293,845
United States	1,376,470	6,300	1,370,170	—
Other equipment	69,253	13,000	56,253	—
	$37,305,761	$685,300	$36,620,461	$31,293,845

* Includes petroleum and natural gas properties, together with exploration, development and equipment thereon.

6. CAPITAL STOCK

(a) Preferred Shares

During 1981, the Company issued 230,000 redeemable convertible preferred shares to officers and employees in exchange for promissory notes totalling $588,100. The preferred shares are redeemable by the company at the issue price and convertible by the holder into common shares of the Company from time to time on the basis of one common share for each preferred share converted.

(b) Common Shares

(i) Changes in the Company's outstanding common share capital during the year ended December 31, 1981 were as follows:

	Number of Shares	Amount
Balance at beginning of year	6,390,832	$31,489,160
For cash on public offering	2,150,000	9,952,781*
Shares issued in exchange for petroleum and natural gas properties	400,590	1,041,534
Balance at end of year	8,941,422	$42,483,475

* Net of underwriting commissions and share issue expenses totalling $926,719, less applicable income tax benefits of $452,000.

(ii) As of December 31, 1981 common shares of the Company were reserved as follows:

230,000 shares for issue on conversion of preferred shares.
958,626 shares for issue on exercise of share purchase warrants (see below).

(c) Share Purchase Warrants

The Company intends to issue to, among others, certain directors and officers warrants to purchase 958,626 common shares of the Company. The warrants will be exercisable at a price of $4.85 per share to February 1987 and thereafter at a price of $5.82 per share to February 1988.

7. SUBSEQUENT EVENT

On January 1, 1982, the Company issued 1,481,262 common shares of its capital stock in exchange for the interests of the limited partners in a petroleum and natural gas exploration program operated by the Company.

AUDITORS' REPORT

To the Shareholders of
Geocrude Energy Inc.

We have examined the consolidated balance sheet of Geocrude Energy Inc. as at December 31, 1981 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Thorne Riddell

Calgary, Canada
March 25, 1982

Chartered Accountants

Corporate Information

Directors:

Arnold L. Cader
James A. Dabbs
Duncan J. Jessiman, Q.C.
Duncan D. Jessiman
Francis B. Lamont
Donald Rafelman
Joseph L. Rotman
William W. Siebens

Officers:

Duncan J. Jessiman, Q.C. — Chairman
James A. Dabbs — President
John G. Schroeder — Controller
E. Lloyd Jones — Secretary

Key Personnel:

J. David Clements
Chief Geologist

David A. Robinson
Land Manager

Robert A. Graham
Production Manager

Head Office:

300 - Three Calgary Place
Calgary, Alberta T2P 0J1
Phone: (403) 233-8396

Legal Counsel:

MacLeod Dixon
1500 Home Oil Tower
Calgary, Alberta T2P 2Z2

Auditors:

Thorne Riddell
12th Fl., Bow Valley Sq. II
Calgary, Alberta T2P 2W4

Transfer Agent:

Crown Trust Company
401 Eighth Avenue S.W.
Calgary, Alberta T2P 1E4

Stock Exchange Listing:

Toronto and Montreal
Share Symbol — GEO

Subsidiary Company:

Geocrude Energy (U.S.) Inc.

awson graphics western limited
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geocrude energy inc.

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